

Some moves make sense in a tumultuous market



Actions that make sense when markets are in turmoil

In mid-late August, stocks slumped around the world and you're being counseled on 'what not to do'.

Well, today is your lucky day, because here are a few things that you CAN do that provide immediate results.

Review your portfolio. Sell bond holdings and buy equity so your portfolio is at your target asset allocation. Add shares when they're on sale.

Diversify. If you've been holding a legacy stock or fund, now is the time to sell it. The greatest risk in a portfolio is a concentrated stock position.

Realize losses. Sell a loser and get a \$3,000 tax deduction for 2015. Buy back a similar, but not identical, fund and you can offset ordinary income without affecting your portfolio.

Do a Roth Conversion. Withdraw shares when they are undervalued, pay ordinary income tax and immediately invest in a Roth. When the shares rebound, the earnings will be tax free forever in the Roth IRA.

Disqualified for the Roth? Take an IRA distribution and invest it in an after-tax account. The long term capital gains rates are lower than the marginal tax brackets.

And I only have one "don't" – don't jump into products that guarantee fixed rates of return without asking a lot of questions. These are usually annuity or life insurance products that are illiquid, irrevocable, and the guaranteed value takes effect when you're dead. Annuitizing with low interest rates creates a low-return pension.

Don't blame the media for reporting more bad news than good news. Studies show that we humans care more about the threat of bad things than the prospect of good things. People who concentrate on bad news work themselves up emotionally and are more likely to make bad decisions, like selling investments when they're discounted.

So here goes: gas prices are at a ten year low, corporations are flush with cash, workers' wages are increasing, housing construction is healthy, and our biggest global economic competitor is struggling.

It's time to decide if you are a long term investor. If you are, then you will receive higher rewards for ignoring volatility.

If you cut and run, then please don't return. Choose a course and stay with it, you need to do what is best for your psychological health.

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